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The Bank of Thailand

6 May 2005

To Managers

All Commercial Banks*

No.: ForGorSor. (11) Wor. 33/2548 Re: Dispatch of the Notification of the Bank of Thailand Re: Conducting Securities Business Categorized as Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units

1. Rationale

1.1 To dispatch the Notification of the Bank of Thailand Re: Conducting Securities Business Categorized as Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units dated 25 March 2005.

1.2 To revoke Clause 1(4) of the letter no.: ThorPorTor. SorNorSor. (11) Wor. 2122/2545 dated 11 September 2002 Re: Permission for Commercial Banks to Operate Businesses in Connection with Securities Business.

1.3 To revoke letter no.: ThorPorTor. NorGor. (Wor.) 718/2536 dated 19 April 1993 Re: Permission to Accept Orders to Purchase-Sell Investment Units.

2. Royal Gazette Issue

General Issue, No. 122, Special Section 36 Ngor, dated 30 April 2005

3. Scope of Application

Applicable to all commercial banks under the law governing commercial banking except international banking facilities

4. Essence of the Notification

The Bank of Thailand, by virtue of provision under Section -9 bis of the Commercial Banking Act B.E. 2505 as amended by the Commercial Banking Act (No. 2) B.E. 2522 hereby permits commercial banks to conduct securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units in accordance to the regulations prescribed in the Notification herewith.

*
Excluding BIBFs

5. Effective Date

This Notification shall be effective on the day following date published in the Royal Gazette onward.

Yours sincerely,

(Mrs. Tongurai Limpiti)
Senior Director, Financial Institutions Policy Group
Governor^{For}

Enclosed: Notification of the Bank of Thailand Re: Conducting Securities Business Categorized as Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units dated 25 March 2005

Financial Institutions Strategy Department

Tel: 0-2283-6875, 0-2283-5834

Note ☐ The BOT will arrange a clarification meeting onat....
☒ No clarification meeting will be arranged

Notification of the Bank of Thailand
Re: Conducting Securities Business Categorized as
Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units

1. Rationale

To broaden the scope of the business of commercial banks related to investment units and to enable commercial banks which are selling-buying agents of investment units to continue as well as to observe the criteria for approval and supervisory of the Office of the Securities and Exchange Commission (the Office of the SEC) in accordance with the Ministerial Regulation Re: Permission to Conduct Securities Business Categorized as Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units B.E. 2547.

2. Statutory Power

By virtue of the provision under Section 9 bis of the Commercial Banking Act B.E. 2505 as amended by the Commercial Banking Act (No. 2) B.E. 2522, the Bank of Thailand hereby grants permission to commercial banks to conduct securities business categorized as securities brokerage, securities dealing or securities underwriting of investment units in accordance to the prescribed provision herein.

3. Scope of Application

This Notification shall be applicable to all commercial banks under the law governing commercial banking except the international banking facilities.

4. Contents

4.1 Principle

4.1.1 The Bank of Thailand grants permission to commercial banks to conduct securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units under the regulations prescribed by the Bank of Thailand. Such permission shall include commercial banks to appoint natural persons approved by the Office of the SEC as agents to sell or buy investment units with the objective in broadening the scope of business related to investment units. Commercial banks intending to appoint individuals as selling-buying agents of investment units, should

consider persons who are knowledgeable, with capability as well as suitable qualifications and who are without any prohibited characteristic stipulated by the Office of the SEC. Furthermore, [the persons] must not cause any detriment to the appointing commercial banks.

4.1.2 Commercial banks shall have operating systems to support the investment unit brokerage, dealing and underwriting functions in accordance to the standards prescribed by the Office of the SEC, for example, system to accept selling-buying orders, risk management and internal control system, system for preventing conflict of interests, system for listing of ultimate investors, system to segregate assets of investors from those of the commercial bank, etc.

4.1.3 Commercial banks intending to conduct securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units must possess risk management systems that are enable to appropriately assess, monitor and control risks; whereby the board of directors of the commercial banks shall establish the strategy, approve policies, operational plan, comply with regulations and criterion related to the undertaking of such business as well as having regular reviews. Senior executives of the commercial banks must also establish guidelines for risk management that are appropriate to the size, scope and complexity of the structure and investment of the commercial banks. Moreover, the board of directors and executives of the commercial banks should oversee and manage such business in accordance with this Notification such that it would not become a venue to generate business gain without regards to corporate governance or to circumvent supervision of the authorities. For example, commercial banks shall not, directly or indirectly, hold the majority portion of or the entire investment units in any mutual fund. Additionally, they shall not invest, incur contingent liabilities or grant credit to any single person through mutual fund in order to avoid [compliance with] purchasing and holding shares to capital funds ratio and the credit granted, investment and contingent liability to any person to capital funds ratio (Single Lending Limit) as prescribed by the Bank of Thailand.

4.2 Criteria

4.2.1 In this Notification,

“investment unit” shall mean investment unit under the law governing securities and exchange;

“securities brokerage” shall mean acting as an agent to buy/sell securities under the law governing securities and exchange;

“securities dealing” shall mean trading of securities under the law governing securities and exchange;

“securities underwriting” shall mean distributing of securities under the law governing securities and exchange.

4.2.2 The Bank of Thailand grants permission to commercial banks to conduct securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units in accordance with the rules, procedures and conditions prescribed in Section 4.2.3 to Section 4.2.10; whereby they must have qualifications and must comply with the following stipulations.

1) Possessing good financial and operating standings, able to set full reserves, able to maintain ratio of capital to assets and contingent liabilities at no less than the rate prescribed by the Bank of Thailand, as well as able to maintain any financial ratio which the Bank of Thailand instructs under special circumstances.

2) Possessing operational plan and procedures to support the securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units in writing that are approved by the board of directors of the commercial bank to be utilized as operating guidelines and for the examination of the Bank of Thailand. Such plan shall contain, at the minimum, the followings.

(1) Policies and procedures for conducting business, whereby any addition or amendment to the policies, operational plan and procedures must receive approval from the board of directors of the commercial bank.

(2) Details of the operating system for conducting business which shall cover the systems according to the types of business the commercial bank is licensed to conduct by the Office of the SEC. For example,

(2.1) systems for analyzing and managing risk of investment units, for determining ceiling for trading book that reflects the risk that the value of the investment unit shall vary with various factors such as fluctuation of interest rate.

(2.2) systems for determining risk tolerance ceiling to safeguard against loss, for monitoring and reviewing of the risk ceiling, for examining and reporting outcomes to identify any conduct differing from the stipulated limits and ceilings. Such shall include approval of exceptions for temporarily exceeding the risk ceiling, systems for data collection, for preparing reports with details that are beneficial to the monitoring, analysis and evaluation of the business performance for reporting to the Bank of Thailand.

(2.3) systems for monitoring of the value changes of the investment units and to make accounting records in accordance with the accounting standards as well as for preparing reports of income or profit/loss incurred from the investment unit trading.

(2.4) systems for accepting selling-buying orders, confirmation and reconciliation of transactions, compliance systems, systems for controlling operations related to the selling or repurchase of investment units between the customers and commercial bank, system to prepare

name list of the ultimate investors and system to segregate assets of investors from those of the commercial bank.

(2.5) systems for operations related to providing services to customers and to oversee the interests of the investment customers such as customer reception, receiving and submitting information, evidential document or various reports related to the mutual fund administration, handling of complaints, advisory service, retention of customer's information, system for unit investors' rights and benefits administration, system for transparent and fair allocation of investment units and system for disclosure and effective data management, etc.

(2.6) any other system that the Office of the SEC may stipulate to support the conducting of securities business categorized as securities brokerage, securities dealing and securities underwriting of investment units.

(3) Personnel readiness in order to assume the responsibilities of securities brokerage, securities dealing and securities underwriting of investment units by having staff to handle the said specific duties including establishing office area clearly separated from the areas for accepting deposits and for other services of the commercial bank.

4.2.3 The commercial banks must administer strict compliance with the accounting standards, laws or other relevant regulations and must possess suitable internal control systems in order to assess and review to determine that their staff has complied with the prescribed policies and procedures and that the established process is actually functional.

4.2.4 Regarding the calculation of risk weight of the investment units or contingent liabilities for underwriting of the investment units for maintaining capital proportional to assets and contingent liabilities, commercial banks shall comply with the notification of the Bank of Thailand regarding capital maintenance and regulations as prescribed by the Bank of Thailand.

Capital maintained for the contingent liabilities under the underwriting for the selling of investment units agreement shall commence on the date which the commercial bank executes the underwriting agreement until the expiry date of sale offer; where such contingent liabilities shall have a credit conversion factor equivalent to that of contingent liabilities for underwriting of instruments or securities as prescribed by the Bank of Thailand.

4.2.5 Commercial banks must set reserves for the difference of the book value that is higher than the fair value or the book value derived from the net assets value in accordance with the notification of the Bank of Thailand regarding worthless or irrecoverable assets and doubtful assets which may be worthless or irrecoverable of commercial banks.

4.2.6 Commercial banks intending to conduct securities business categorized as securities brokerage, securities dealing or securities underwriting of investment units must be licensed by the Office of the SEC in accordance with the Ministerial Regulation regarding Permission to Conduct

Securities Business Categorized as Securities Brokerage, Securities Dealing or Securities Underwriting of Investment Units B.E. 2547 and as amended. The commercial banks shall conduct only the type of securities business it is licensed.

4.2.7 Commercial banks licensed to conduct securities business categorized as securities brokerage, securities dealing or securities underwriting of investment units may appoint natural persons approved by the Office of the SEC as agents in selling or buying investment units.

4.2.8 Commercial banks conducting securities business categorized as securities brokerage, securities dealing or securities underwriting of investment units must comply with the rules, procedures and conditions of investments in investment units as prescribed by the Bank of Thailand.

4.2.9 The Bank of Thailand is empowered to suspend or revoke the permission to conduct securities business of brokerage, dealing or underwriting of investment units in the following cases.

1) The commercial bank violates or neglects to comply with the criteria, procedures and conditions prescribed by the Bank of Thailand.

2) Other cases that the Bank of Thailand deems harmful to the safety or well-being of the public.

4.2.10. The Bank of Thailand may add or amend the criteria, procedures and conditions, with which commercial banks shall comply, that are related to the conducting of securities business categorized as securities brokerage, securities dealing or securities underwriting of investment units as deemed appropriate.

5. Effective Date

This Notification shall become effective from the day following the date published in the Royal Gazette onward.

Given on 25 March 2005

(M.R. Pridiyathorn Devakula)

Governor

The Bank of Thailand